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BEFORE THE ARIZONA CORPORATION COMMISSION

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2008 DEC -8 A 9:51

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

CHAPARRAL CITY WATER COMPANY,
INC., AN ARIZONA CORPORATION FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES FOR UTILITY
BASED THEREON.

DOCKET NO. W-02113A-07-0551

**STAFF'S NOTICE OF FILING WITNESS
SUMMARIES**

Staff of the Arizona Corporation Commission ("Staff") hereby provides the witness
summaries for Messrs. Gordon Fox, Marlin Scott, Jr. and Marvin Millsap.

RESPECTFULLY SUBMITTED this 8th day of December, 2008.


Arizona Corporation Commission

DOCKETED

DEC -8 2008

DOCKETED BY

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Original and 13 copies of the foregoing filed
this 8th day of December, 2008 with:

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2 8th day of December, 2008 to:

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**SUMMARY OF PRE-FILED TESTIMONY
CHAPARRAL CITYWATER COMPANY
DOCKET NO. W-02113A-07-0551**

The pre-filed testimony of Staff witness Gordon L. Fox addresses the following issues:

Operating Income Calculation – Staff recommends that the Commission adopt a method of calculating operating income that largely follows the method adopted in Chaparral City Water Company, Inc.'s ("Chaparral City" or "Applicant") remand proceeding (Decision No. 70441). Staff's specific recommendation modestly refines the previously adopted method to more closely follow financial theory and to symmetrically match the inflation components recognized in the fair value rate of return ("FVROR") and fair value rate base ("FVRB").

Staff further recommends that the Commission reject the Applicant's proposal to calculate operating income by multiplying the weighted average cost of capital ("WACC") by the fair value rate base ("FVRB") for the same reason that method was rejected in Decision No. 70441 – it overstates the impact of inflation resulting in rates that are not just and reasonable.

**SUMMARY OF TESTIMONY
OF
MARLIN SCOTT, JR.
FOR
CHAPARRAL CITY WATER COMPANY
DOCKET NO. W-02113A-07-0551**

CONCLUSIONS

- A. The Chaparral City Water Company ("Company") water system's current source and storage capacity are adequate to serve the present customer base and reasonable growth.
- B. The Maricopa County Environmental Service Department has reported no major deficiencies and has determined that the Company's system, PWS #07-017, is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
- C. The Company is located in the Arizona Department of Water Resources' ("ADWR") Phoenix Active Management Area and ADWR has reported that the Company is in compliance with its requirements governing water providers and/or community water systems.
- D. The Company has no delinquent Arizona Corporation Commission compliance issues.
- E. The Company has an approved curtailment tariff that became effective on October 1, 2005.
- F. The Company has an approved backflow prevention tariff that became effective on October 1, 2005.

RECOMMENDATIONS

- 1. The Company is aware of its 15.9% water loss amount and believes the Central Arizona Project's ("CAP") intake meter is not accurately registering. For this reason, the Company will be installing its own CAP water meter at its Shea Water Treatment Plant.

Staff recommends that after the Company completes its own CAP water meter installation, the Company should begin a 12-month monitoring exercise of its water system. Staff further recommends that the Company docket the results of the system monitoring as a compliance item in this case by November 1, 2009. If

the reported water loss for the period from October 1, 2008 through October 1, 2009, is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. This report shall be docketed as a compliance item for this proceeding for review and certification by Staff. The above report or cost benefit analysis, if required, shall be docketed by December 31, 2009.

2. Staff recommends its average annual cost of \$25,638 be adopted for the water testing expense in this proceeding.
3. Staff recommends its adjusted Original Cost value of \$48,972,590 and Reproduction Cost New value of \$76,031,428 be used as a guideline for purposes of setting rates in this proceeding.
4. Staff recommends that approximately half of the requested CAP Water allocation of 966 acre-feet per year be considered used and useful.
5. Staff recommends that the Company continue to use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners.
6. Staff recommends that the Company continue to use its unchanged service line and meter installation charges.

**SUMMARY OF THE TESTIMONY OF STAFF WITNESS MARVIN E. MILLSAP
CHAPARRAL CITY WATER COMPANY, INC.
DOCKET NO. W-02113A-07-0551**

Chaparral City Water Company, Inc. ("Chaparral City" or "Company") is an Arizona-based corporation that provides water utility service to the Town of Fountain Hills which is located along the eastern city limits of Scottsdale within Maricopa County. The Company served approximately 13,500 customers during the test year ended December 31, 2006. The Company's current rates were approved in Decision No. 68176, dated September 30, 2005, and became effective on October 1, 2005. Chaparral City's sole shareholder is American States Water Company, which is publicly traded on the New York Stock Exchange.

The Company proposes rates that would produce operating revenue of \$10,515,017 and operating income of \$2,681,268 for a 9.32 percent rate of return on a fair value rate base ("FVRB") of \$28,768,975. The Company's proposal would increase annual operating revenues by \$3,068,317, or 41.20 percent, over test year revenues of \$7,446,700. Under the Company's proposed rates, the average residential ¾-inch meter customer consuming 8,450 gallons per month would experience an \$11.79, or 36.41 percent, increase in his/her monthly bill from \$32.37 to \$44.16.

Staff recommends total annual operating revenue of \$9,181,965 and operating income of \$2,055,831 for a 7.60 percent rate of return on a FVRB of \$27,050,414. Staff's recommended revenue represents an increase of \$1,735,265, or 23.30 percent, over test year revenues of \$7,446,700. Under Staff's recommended rates, the average residential ¾-inch meter customer consuming 8,450 gallons per month would experience a \$4.09, or 12.63 percent, increase in his/her monthly bill from \$32.37 to \$36.46.

Staff's recommended rates would have a residential ¾-inch meter customer consuming the median usage of 5,500 gallons per month paying \$27.85, or \$2.91 more than the current \$24.94 for a 11.67 percent increase. By comparison, a residential ¾-inch meter customer consuming the median usage of 5,500 gallons per month under the Company's proposed rates would be billed \$34.03, or \$9.09 more than the current \$24.94 for a 36.43 percent increase.